An Analysis of the Use of Education Tax Credits at Four Public Community Colleges

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This study examined the use of education tax credits at four community colleges using data from the Federal Quality Assurance Program in 1998, the first year of the HOPE Scholarship and Lifetime Learning Tax Credit (LLTC). Preliminary estimates indicated that the two tax credits were expected to primarily benefit middle-income tax filers with adjusted gross incomes (AGI) falling between $40,000 and $80,000. Also, claimants were not expected to benefit from the Federal Pell Grant program. Of the sample of federal 1998 tax returns examined in this study, only 11.2% claimed a HOPE/LLTC, averaging $859. In addition, the average adjusted gross income (AGI) of claimants was $35,867, with approximately 59% of AGI levels falling below $40,000.

This study also examined Federal Pell Grant and earned income tax credit (EITC) use to determine to what extent lower-income tax filers are claiming the HOPE/LLTC. The results indicate that approximately 58% of student HOPE/LLTC claimants also received Pell, averaging $1,775, while 14% of independent student and parent HOPE/LLTC claimants also claimed an EITC, averaging $924.

Other variables examined include use of a paid tax preparer or self-preparation (by hand vs. tax software). The results indicate that a larger percentage of the HOPE/LLTC came from lower income levels than originally projected. While the results of this study are limited and only examine data elements from a financial aid filer database, the information can be useful to policy makers in determining if the HOPE/LLTC is benefiting taxpayers in accordance with the policy's intent.

Student access to postsecondary education has been a fundamental concern of the federal government starting with the implementation of the Montgomery G.I. Bill in 1944 (then known as the Servicemen's Readjustment Act). Since 1958, with the passage of the National Defense Education Act, the federal government has assisted students in paying for college primarily through devices such as grants, work-study assistance, and guaranteed loans (McCormick, 1994). The Higher Education Act of 1965, which authorized these three main sources of federal student assistance, has been continually reauthorized by the U.S. Congress throughout the years. While Congress has primarily focused on providing direct aid to students, it has also debated using college tuition tax credits as an alternative means of providing assistance to students and families (Hansen, 1978; Brademas, 1987; Conklin, 1998).

In its deliberations on the Higher Education Act of 1965, the Middle Income Student Assistance Act of 1978, and the Taxpayer Relief Act of 1997, Congress debated using tax credits (or tax deductions) for college tuition (Silliman, 2002). The goal during each Congressional deliberation was the same: to provide assistance to students and families needing help in paying college costs. Nearly 32 years after they were first debated in Congress, President William Clinton signed into law the federal HOPE Scholarship and Lifetime Learning Tax Credit as part of the Taxpayer Relief Act of 1997 (§ 25A of the Internal Revenue Code of 1986). Prior to enactment, at the legislation's proposal stage, Clinton's goal for these tax credits was aimed at expanding a student's access to the "13th and 14th years of education, at least [two] years of college, [making it] just as universal in America by the 21st century as a high school education is today." (Clinton, 1997). Further, in Clinton's 1997 State of the Union Address, he proposed that the HOPE Scholarship pay up to $1,500 a year for the first two years of college, "enough to pay for the typical community college" (Clinton, 1997). The Lifetime Learning Tax Credit provision in the legislation originated as part of Clinton's "GI Bill for America's Workers" (Clinton, 1997). These two tax credits were one of Clinton's second-term presidential legacy policies. In addition, a college tuition tax deduction was enacted in 2001 (subsequent to this study).

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Briefly, tax credits are dollar-for-dollar reductions in an individual's tax liability. The HOPE Scholarship (HOPE) and Lifetime Learning Tax Credit (LLTC) (along with other tax measures such as the Education IRA, deductibility of student loan interest, and provisions allowing taxpayers to access existing Individual Retirement Accounts to pay for higher education expenses without triggering penalties) were signed into law by Clinton on August 5, 1997, and went into effect in 1998.

The HOPE and LLTC have similarities and differences: The HOPE credit is non-refundable and allows up to a maximum of $1,500 per student per year for qualified tuition and fees for the first two years of a student's postsecondary education in a degree or certificate program. The amount of the HOPE credit will be adjusted for inflation beginning in 2006. The LLTC is also a non-refundable credit and, through 12/31/02, was equal to 20% of the first $5,000 in qualified tuition and fee expenses during the taxable year. This increased to the first $10,000 of qualified expenses after 12/31/02 for a student who is enrolled in postsecondary coursework beyond the second year of study, through graduate school. Unlike HOPE, the LLTC is allowable for only one family member per tax return.

Table 1 briefly highlights the main provisions and income eligibility levels of the HOPE Scholarship and Lifetime Learning Tax Credit.

Table 1:
Highlights of the HOPE Scholarship and Lifetime Learning Tax Credits

	HOPE Scholarship	Lifetime Learning Tax Credit
Type of tax benefit	Tax credit (non-refundable)	Tax credit (non-refundable)
Annual Limits	$1,500 per student	$2,000 per taxpayer after 12/31/02 ($1,000 of the first $1,000 before 12/31/02)
What education qualifies?	1st and 2nd years of undergraduate education	3rd year of undergraduate education through graduate school
How are the tax credits calculated?*	100% of the first $1,000 + 50% of the next $1,000	20% of the first $10,000 (20% of the first $5,000 until 12/31/02)
Income phase-outs:**		
Single filers	AGI from $43,000 to $53,000	AGI from $43,000 to $53,000
Joint filers	AGI from $87,000 to $107,000	AGI from$87,000 to $107,000
Effective dates:	Tuition and fees paid after 12/31/97	Tuition and Fees paid after 6/30/97 for college enrollment beginning after 6/30/97

**HOPE credit will be indexed for inflation beginning in 2006.*
***Prior to 12/31/02, phase-outs were single filers: $40,000-$50,000; joint filers: $80,000-$100,000*
Source: Joint Committee on Taxation (2005).

In tax year 1998 alone, the U.S. Department of Education projected that the two tax credits would cost up to $9 billion, which represents a total cost of $40 billion over a five-year period if fully claimed by taxpayers (Conklin, 1998).

Purpose of the Study

The purpose of this analysis is to examine this recent policy phenomenon to determine, using actual 1998 federal tax return data, if the two education tax credits are being utilized as policymakers had intended. This study examines the use of college tuition tax credits (HOPE and LLTC) at four public community colleges. These two new "non-refundable" tax credits exist today alongside the federal student aid programs. Since the HOPE and LLTC were enacted, several projections indicated that the primary beneficiaries would be individuals with adjusted gross incomes between $40,000 and $80,000 (Hauptman, 1997). Researchers initially projected that students attending community colleges, or their parents, would not benefit from either tax credit, contrary to the intent of the policy. These studies further claimed that this lack of tax credit usage by community college students or their parents was primarily due to three factors: relatively low tuition costs, the high use of federal need-based student aid (e.g., Federal Pell Grants) at such institutions, and tax filers lacking a positive tax liability to offset a tax credit (Conklin, 1998; Wolanin, 2001).

Research Design

Because many of the policy discussions regarding the HOPE and LLTC were targeted at community colleges, this analysis was designed to determine the extent to which these taxpayers claimed either tax credit while attending four public community colleges in 1998 (the first year of availability). The community colleges were located in four states: New York, Ohio, Virginia, and Washington. The research design was secondary data analysis: 1998 federal tax return and financial aid data were collected at institutions that participated in the U.S. Department of Education's Federal Quality Assurance Program (QAP). Through the QAP program, approximately 145 participating institutions collect and report data elements submitted by families on the Free Application for Federal Student Aid as part of the federal student aid verification process (Federal Register, April 2005). The study included a sample of 697 student and parent tax returns, previously collected in the QAP process, which were divided into two sub-samples: HOPE/LLTC claimants and non-claimants. The variables examined in the study included amount of education tax credit claimed, adjusted gross income, taxes paid, amount of Federal Pell Grant awarded, amount of Earned Income Tax Credit, and method of tax return preparation (i.e., prepared by a tax professional, self-prepared using computer software, or hand-prepared).

Limitations of the Study

While the data collected were useful for this study, some limitations existed. First, the sample size of 697 tax filers collected at four U.S. community colleges was intended to provide only a "snapshot" of the use of the federal HOPE and LLTC provisions, rather than to generalize to the population as a whole. As with any study where tax return data elements are collected, limitations existed as to the quantity of tax return and federal financial aid data elements that were available. Second, this study lacked comparable years' tax data (unavailable for 1999 or 2000).

Results and Discussion

The first level of inquiry was to determine the percentage of taxpayers in the sample who claimed an education tax credit (HOPE or LLTC) along with those who did not claim a tax credit.

Percentage of HOPE/LLTC Claimants vs. Non-Claimants

The total sample of 697 tax filers was divided into three major sub-samples: HOPE/LLTC claimants, non-claimants with a tax liability, and non-claimants with zero tax (Table 2). HOPE/LLTC claimants are those individuals in the sample whose 1998 federal tax returns indicated that an Education Tax Credit was claimed on Line 44 of the federal 1040 or Line 29 of the federal 1040A.

Table 2 shows that of the 697 tax filers in the overall sample, only 78 claimed an education tax credit on their 1998 federal tax return. These 78 HOPE/LLTC claimants represent approximately 11.2% of the total sample. In addition, of the dis-

Table 2
Percentage of Student and Parent HOPE/LLTC Claimants and Non-Claimants for the 1998 Tax Year

Type of tax return	Total Number	All Tax Filers	HOPE/LLTC Claimants	Non-Claimants with a Tax	Non-Claimants with $0 Tax
Parent tax return	229	32.9%	53.8%	37.4%	19.0%
Dependent student tax return	117	16.8%	2.6%	11.7%	29.3%
Independent student tax return	351	50.4%	43.6%	50.9%	51.7%
Total sample	697	100.0%	100.0%	100.0%	100.0%
Percentage of HOPE/LLTC claimants	11.2%		*n* = 78		
Percentage of non-tax credit claimants	88.8%			*n* = 377	*n* = 242

tribution of tax credit claimants, approximately 54% were parents, 44% were independent students, and 2.6% were dependent students (only two). Therefore, parents and independent students were the primary HOPE/LLTC claimants, which may be partially explained by the education tax credit rules; the tax provision allows either the student or the parents (but not both) to claim an education tax credit. Since 2.6% is such a minimal amount, the dependent student data were eliminated from the tables of results dealing with HOPE/LLTC claimants.

This finding that only 11.2% of tax filers claimed a HOPE/LLTC credit is considerably less than the percentage projected in a study by Stoll and Stedman, which estimated that eligible HOPE/LLTC claimants receiving federal financial aid at public community colleges nationwide during the 1999-2000 academic year were approximately 21% (Stoll and Stedman, 2003). The Stoll and Stedman study was not based on actual tax data, but on projections based on data from the National Postsecondary Student Aid Study (NPSAS) and U.S. Census data.

In addition, in a study of the two tax credits by the University of California system (UC), a relatively low-cost four-year state institution, Hoblitzell and Smith (2001) found that in 1999, approximately 27% of the undergraduates claimed either a HOPE or LLTC. Specifically, approximately 13% of the UC undergraduates claimed a HOPE Scholarship, 14% claimed a LLTC, and 73% claimed neither credit (Hoblitzell, 2001). These two studies provide more evidence that the two tax credits were underutilized, at least in the first few years of availability. Similarly, a study by Bichelmeyer et al. (2003) examined the use of the LLTC by adult learners and found that a larger percentage of LLTC users came from higher-income households, and that most LLTC credits were claimed by students already attending college. The credit did not appear to increase student access.

In examining the non-claimant portion of this sample, approximately 619 (88.8%) of the total sample did not claim a HOPE or LLTC. Of this sub-sample, 377 had a positive tax

liability and might have been eligible for an education tax credit, while the remaining 242 non-claimants had a zero tax liability and were presumed ineligible for a HOPE/LLTC as they had no tax to offset against a credit. Therefore, the 242 tax filers with a zero tax liability were excluded from some of the analysis in this study. Of the non-claimants with a tax, 37% were parent tax filers, approximately 12% were dependent students, and 51% were independent students.

As indicated earlier, the 11.2% claimant finding in this study is somewhat below what was estimated at public community colleges in Stoll and Stedman's projections. The reason may be that the 697 tax filers in the overall sample in this study were comprised of students and parents applying for federal financial aid at four community colleges. Also, many of these tax filers may have lower incomes, reflecting a higher financial need than tax filers who did not apply for federal financial aid. The Stoll and Stedman study included both tax filers with aid *and* tax filers without aid.

It should be noted that the HOPE Scholarship was designed by lawmakers to assist students and families in paying for the first two years of a "typical community college" (Clinton, 1997). This finding of only 11.2% claiming a tax credit is quite low, considering these two tuition tax credits were targeted directly at this population.

Amount of HOPE/LLTC Claimed

Table 3 reveals the distribution and average dollar amount of education tax credits (HOPE and LLTC combined) claimed by students or their parents on their 1998 federal tax returns.

Table 3 reveals that the combined mean education tax credit is $859 (HOPE and LLTC combined). For each category of

Table 3
Distribution and Average Dollar Amount of Education Tax Credit Claimed by Students or Their Parents in 1998

Education Credit Amount*	Total Percent	Parent Claimants	Independent Student Claimants
$ 1 to $ 500	36.8%	23.8%	52.9%
$ 501 to $ 1,000	21.1%	16.7%	26.5%
$1,001 to $ 1,500	32.9%	42.9%	20.6%
$ 1,501 to $ 2,000	3.9%	7.1%	0.0%
$ 2,001 to $ 2,500	2.6%	4.8%	0.0%
$ 2,501 to $ 3,000	2.6%	4.8%	0.0%
Totals	100.0%	100.0%	100.0%
Mean Education Credit	$859	$1,122	$554
	n = 76	*n* = 42	*n* = 34

**Collected from either Line 44 (IRS Form 1040) or Line 29 (IRS Form 1040A)*

tax filer, parent data has a slightly higher mean of $1,122 (approximately 54% of the total HOPE/LLTC claimants), while the independent student mean HOPE/LLTC is much lower at $554 (approximately 44% of the HOPE/LLTC claimants).

Stoll and Stedman's study estimated a $692 mean (combined HOPE and LLTC) education tax credit at public two-year community colleges (Stoll and Stedman, 2003). Unlike this analysis, the Stoll and Stedman study does not provide the mean HOPE/LLTC by category of tax filer group. In addition, Long's recent study indicates that the mean education tax credit (combined HOPE and LLTC) nationally, based on IRS data, was $726 (Long, 2003). Long's study does not provide the mean tax credit based on institution type. Therefore, the combined mean HOPE/LLTC in those two studies was lower than the mean education tax credit of $859 found in this study. Table 3 indicates that part of the explanation for the larger mean HOPE/LLTC in this study may be due to the larger portion of tax credit claimants being parents, with nearly 83% of the amount of the parent HOPE/LLTC falling between $1,000 and $1,500.

Average Adjusted Gross Income

Table 4 shows the distribution of federal adjusted gross income levels of HOPE/LLTC claimants and non-claimants (with *and* without a tax). Table 4 indicates a relatively wide distribution of adjusted gross income levels between $1 and over $85,000 for

Table 4
Distribution and Average Adjusted Gross Income (AGI) Levels of HOPE/LLTC Claimants and Non-Claimants in 1998

Adjusted Gross Income*	All Tax Filers	HOPE/LLTC Claimants	HOPE/LLTC Cumulative	Non-Claimants with Tax	Non-Claimants with $0 Tax
$ 1 to $ 10,000	34.8%	2.6%	2.6%	15.9%	74.4%
$ 10,001 to $ 20,000	22.4%	11.8%	14.4%	52.0%	21.5%
$ 20,001 to $ 30,000	16.5%	21.1%	35.5%	24.4%	2.9%
$ 30,001 to $ 40,000	11.8%	23.7%	59.2%	16.2%	1.2%
Subtotal $1 to $40,000	85.6%	59.2%		81.7%	100.0%
$ 40,001 to $ 50,000	8.1%	26.3%	85.5%	9.5%	0.0%
$ 50,001 to $ 60,000	3.0%	5.3%	90.8%	4.5%	0.0%
$ 60,001 to $ 70,000	1.7%	5.3%	96.1%	2.1%	0.0%
$ 70,001 to $ 80,000	0.9%	1.3%	97.4%	1.3%	0.0%
Subtotal $40,001 to $80,000	13.7%	38.2%		17.5%	0.0%
Over $ 80,000	0.7%	2.6%		0.8%	0.0%
Totals	100.0%	100.0%		100.0%	100.0%
Mean AGI	$20,739	$35,867		$26,163	$7,492
	n = 695	*n* = 76		*n* = 377	*n* = 242

**Collected from either Line 34 (IRS Form 1040) or Line 19 (IRS Form 1040A).*

the tax filers in this study. The combined mean AGI of tax credit claimants is $35,867, while the mean AGI of non-claimants with a tax is $26,163.

A 1997 study by Hauptman and Rice projected that families with AGIs between $40,000 and $80,000 would be the primary beneficiaries of the HOPE and Lifetime Learning Tax Credit. These served as parameters for this study (Hauptman, 1997). While Hauptman and Rice's work is based on a completely different sample from all types of institutions, the AGI range determined in those findings serves as a useful reference point for analyzing this study. In Table 4, incomes falling between $40,001 and $80,000 are subtotaled to reflect the projections by Hauptman and Rice. In this study, the combined percentage of HOPE/LLTC claimants' AGIs that fall between $40,001 and $80,000 was approximately 38%. In addition, approximately 59% of the tax credit claimants fell at or below the $40,000 range. One possible reason that the majority of HOPE/LLTC claimants in this study fell at or below the $40,000 projected by the Hauptman and Rice study is that this sample was more restrictive because it was limited to students and parents who applied for federal financial aid. Therefore, tax credit claimants captured in this sample may have had a higher financial need, reflecting somewhat lower income levels.

The fact that approximately 59% of the tax credit claimants fell below the $40,000 range is a major finding. It challenges policy experts who claimed that only middle-income families would be eligible to claim a tax credit.

The cumulative percentage of non-claimants with a tax falling below an AGI of $40,000 (82%) is a much higher percentage compared to the sub-sample of HOPE/LLTC claimants (59%). Only 18% of the non-tax credit claimants with a tax fell within the income range of $40,000 and $80,000 indicated in the Hauptman and Rice study as disproportionately benefiting from an education tax credit. In addition, as shown in Table 4, nearly 41% of the non-claimants with a tax had an AGI falling between $20,001 to $40,000, compared to 45% of HOPE/LLTC claimants with adjusted gross incomes at those same levels. In these results, the non-claimants with a tax who had an AGI falling between these same levels—$20,001 to $40,000—had a positive tax liability to offset against a potential tax credit. One possible reason these tax filers did not claim an education tax credit was that the student may not have been assessed any out-of-pocket costs. This can occur if grant aid (i.e., federal, state, or scholarship aid) is offset against gross tuition costs.

In evaluating this new education tax credit policy, the fact that approximately 59% of the tax credit claimants fell at or below the $40,000 range is a major finding. It challenges policy experts who claimed that only middle-income families would be eligible to claim a tax credit. Because Congress passed the two tax credits as a policy that could be used in conjunction with the traditional federal student aid programs and not in isolation, additional research on this population should be conducted to determine if AGI levels projected originally should be refined to capture AGI's below $40,000.

Average Tax Liability

Table 5 provides a cross tabulation of the federal income taxes paid for the two tax return filer categories. It reveals the distribution and average federal income taxes paid *before* deducting the credit claimed from the HOPE or LLTC by the claimants. This variable is important because taxpayers cannot claim a HOPE or LLTC unless they have a positive tax liability to offset against either tax credit. Table 5 indicates the distribution of income taxes paid between $1 and $11,000. The combined mean income taxes paid is $2,972 for HOPE/LLTC claimants and $1,887 for non-claimants. Of the 619 total non-claimants, 242 were excluded from parts of the analysis because they had zero tax liability with which to offset an education tax credit.

Table 5
Distribution and Average Federal Income Taxes Paid in 1998

Income Taxes Paid*	All Tax Filers with a Tax Liability	HOPE/LLTC Claimants (Percent)	Non-Claimants with a Tax** (Percent)
$ 1 to $ 1,000	37.3%	15.8%	41.6%
$ 1,001 to $ 2,000	22.1%	26.3%	21.2%
$ 2,001 to $ 3,000	16.6%	15.8%	16.7%
$ 3,001 to $ 4,000	11.0%	19.7%	9.3%
$ 4,001 to $ 5,000	6.0%	9.2%	5.3%
$ 5,001 to $ 6,000	2.2%	2.6%	2.1%
$ 6,001 to $ 7,000	2.0%	5.3%	1.3%
$ 7,001 to $ 8,000	0.7%	0.0%	0.8%
$ 8,001 to $ 9,000	0.7%	1.3%	0.5%
$ 9,001 to $ 10,000	0.4%	0.0%	0.5%
$ 10,001 to $ 11,000	0.2%	1.3%	0.0%
Over $ 11,000	0.9%	2.6%	0.5%
Totals with positive tax	100.0%	100.0%	100.0%
Mean income taxes	$2,046	$2,972	$1,887
	n = 453	n = 76	n = 377

**Collected from either Line 40 (IRS Form 1040) or Line 25 (IRS Form 1040A).*
***Non-claimants with $0 tax total 242, or approximately 34.8% of sample.*

Average Pell Grant

The next variable examined was the distribution and average Federal Pell Grant award of both dependent and independent students who claimed or did not claim HOPE/LLTC. Parents were excluded from this analysis because the Pell Grant is only received by the student. Because various researchers projected that Pell Grant recipients would be excluded from receiving a HOPE or LLTC (Stoll and Stedman, 2003; Wolanin, 2001;

Hauptman, 1997), Table 6 examines this variable and its interrelationship with the two college tax credits.

Table 6 was compiled with a cross tabulation of Federal Pell Grant recipients for the 21 student HOPE/LLTC claimants,30 student non-claimants with a tax, and 112 non-claimants with zero tax. In 1998, the maximum Federal Pell Grant a student could receive was $3,000. The Pell Grant amounts collected for this sample were from the student financial aid award records for the academic year 1998-1999 and were determined by information submitted on a student's Free Application for Federal Student Aid (FAFSA), which required 1998 federal tax return information, along with other data elements.

The Pell Grant amounts shown in Table 6 were derived, in part, based on the same federal tax information that is used in this study. Pell Grants are need-based grants awarded by the U.S. Department of Education to students from families that demonstrate a relatively high financial need. Tax law requires that qualified tuition and fees that are used in determining an education tax credit be reduced by any grant aid, including the Federal Pell Grant.

A brief example should help explain how the Pell Grant interacts with the determination of the two education tax credits. Assume a first-year, dependent student attends a local community college and has qualified tuition and fees of $1,800 during calendar year 1998. In addition, assume during this same period she qualified for and received a $1,000 Federal Pell Grant. Under the rules of the HOPE Scholarship, the net tuition paid during 1998 would be $800 ($1,800 tuition less $1,000 Pell). Both education tax credits are calculated using net tuition. For 1998, the student or her parents would be able to claim a HOPE Scholarship of $800 (i.e., 100% of the first $1,000 of net tuition,

Table 6
Distribution and Average Federal Pell Grant Amounts of Student HOPE/LLTC Claimants and Non-Claimants in the 1998-1999 Academic Year

Average Pell Grant Amount	All Tax Filers with Pell	HOPE/LLTC Claimants	Non-Claimants with a Tax	Non-Claimants with $0 Tax
$ 1 to $ 500	11.3%	9.5%	11.5%	2.7%
$ 501 to $ 1,000	18.5%	23.8%	17.7%	11.6%
$1,001 to $ 1,500	22.5%	4.8%	25.4%	26.8%
$ 1,501 to $ 2,000	12.6%	19.0%	11.5%	8.0%
$ 2,001 to $ 2,500	13.2%	14.3%	13.1%	11.6%
$ 2,501 to $ 3,000	21.9%	28.6%	20.8%	39.3%
Total Pell recipients	100.0%	100.0%	100.0%	100.0%
Mean Pell Grant	$1,806	$1,775	$1,619	$2,040
	n = 263	*n* = 21	*n* = 130	*n* = 112

Table 7
Average 1998 Tuition Costs of the Four Community Colleges

State	Average 1998 Community College Full-time Tuition
NY	$2,557
OH	$2,294
VA	$1,132
WA	$1,745
Combined Mean	$1,932

Source: American Association of Community Colleges, 1998 Key State Information.

plus 50% of the next $1,000 up to a maximum credit of $1,500). If the student had not had a Pell Grant, her HOPE credit would have been $1,400.

One of the major criticisms with the HOPE Scholarship and LLTC is that qualified tuition must be reduced by grant aid, thus lowering the amount of net tuition used to calculate the tax credit (Conklin, 1998; Gladieux, 1997; Wolanin, 2001). In addition, Conklin (1998) and Wolanin (2001) each argue that the impact of the Pell Grant deduction from tuition costs in the determination of "net tuition" used in calculating HOPE/LLTC eligibility harms students attending lower-priced institutions, such as public community colleges. Both rcsearchers argue that thc Pell ultimately eliminates "net tuition" amounts for many students.

Conklin's analysis indicates that the average tuition at public community colleges nationwide in 1998 was $1,500 (the combined average tuition at the four community colleges in this study was $1,932). Table 7 highlights the average 1998 full-time tuition in the states where each college in the sample was located.

The majority of students receiving a Pell Grant in the Conklin analysis were projected as not receiving a HOPE Scholarship because a majority of their tuition was paid by Pell (Conklin, 1998). Stoll and Stedman's more recent study, however, argues that some Pell Grant recipients may also claim a HOPE/LLTC (Stoll and Stedman, 2003). Table 6 reveals a large proportion of student HOPE/LLTC claimants in this study also received a Federal Pell Grant.

Table 6 indicates that the mean Pell Grant of HOPE/LLTC claimants is $1,775, with approximately 58% of student HOPE/LLTC claimants receiving a Pell Grant. The table further reveals that approximately 38% of all those who claimed Pell Grant and HOPE/LLTC were awarded a grant of $1,500 or below, whereas approximately 62% of all Pell recipients were awarded a grant ranging from $1,500 to $3,000. The higher

percentage of the sub-sample receiving a slightly larger average Pell Grant awards may be because the sample is comprised of financial aid filers who, in general, have a relatively strong financial need.

Table 6 further reveals that the mean Federal Pell Grant of non-claimants with a tax is $1,619. Approximately 55% of these were awarded a Pell Grant of $1,500 or below, whereas 45% were awarded a Pell Grant ranging from $1,500 to $3,000. In addition, non-claimants with zero tax had a mean Pell Grant award of $2,040, which is higher than the other two sub-samples (the mean AGI of this sub-sample was $7,492, reflecting a potentially higher financial need).

In summary, although a relatively small number of the student HOPE/LLTC claimants in this study were awarded a Pell Grant, approximately 58% claimed *both* a Pell Grant and a HOPE/LLTC. This result contrasts with earlier claims by researchers (Conklin, Gladieux, Hauptman, and Wolanin) who argued that low-income students and Pell recipients would be excluded from receiving an education tax credit. Additional research needs to be conducted in order to further understand the intersection between those who benefit from both the Federal Pell Grant and the HOPE and LLTC (as recommended in a 2002 Governmental Accountability Office report, discussed later) (GAO, 2002).

Earned Income Tax Credit

The interrelationship between the HOPE/LLTC and the earned income tax credit (EITC) provides a better understanding of the

Table 8
Distribution and Average Earned Income Tax Credit (EITC) Amount of Independent Students and Parent HOPE/LLTC Claimants and Non-Claimants in 1998

EITC Amount*	All Tax Filers	HOPE/LLTC Claimants	Non-Claimants with a Tax	Non-Claimants with $0 Tax
$ 1 to $ 500	19.1%	27.3%	21.0%	16.5%
$ 501 to $ 1,000	13.5%	36.4%	18.1%	7.2%
$1,001 to $ 1,500	10.8%	9.1%	17.4%	4.3%
$ 1,501 to $ 2,000	21.2%	27.3%	22.5%	19.4%
$ 2,001 to $ 2,500	18.4%	0.0%	10.9%	27.3%
$ 2,501 to $ 3,000	6.6%	0.0%	5.8%	7.9%
Over $ 3,000	10.4%	0.0%	4.3%	17.3%
EITC Recipient Totals	100.0%	100.0%	100.0%	100.0%
Percent Claiming EITC	44%	50%	41%	57%
Mean EITC	$1,622	$924	$1,347	$1,946
	n = 288	*n* = 11	*n* = 195	*n* = 139

**Collected from either Line 59a (IRS Form 1040) or Line 37a (IRS Form 1040A).*

use of both tax credits by lower-income tax filers. Table 8 provides the EITC of both HOPE/LLTC claimants and non-claimants (with *and* without a tax). This analysis includes only independent students and parent data. Table 8 indicates the distribution of EITC amounts from $1 up to $3,000 with approximately 50% of the total sample of 580 independent student and parent tax filers reporting an EITC on their federal taxes in 1998. As indicated in Table 4, the mean AGI of all tax filers was $20,739.

While only 11 . . . of the 76 HOPE/LLTC claimant sub-sample had both an education tax credit and an EITC in 1998, this information is useful because the majority of the education tax credit claimants are assumed to be primarily middle-income taxpayers.

While only 11 (approximately 14%) of the 76 HOPE/LLTC claimant sub-sample had both an education tax credit and an EITC in 1998, this information is useful because the majority of the education tax credit claimants are assumed to be primarily middle-income taxpayers (Hauptman, 1997). The mean EITC of these 11 HOPE/LLTC claimants is $924. While not reported in Table 8, the mean HOPE/LLTC of those claiming an EITC is $760. Also, five independent students in this sub-sample received an average Pell Grant of approximately $1,911. Recipients of the EITC in tax year 1998 generally were assumed to have earned below $30,850 and to have a qualifying dependent child. In addition, unlike either of the two education tax credits, the EITC is a *refundable* tax credit—no tax liability is required to offset against the EITC. In terms of the mechanics of claiming an education tax credit and an EITC in 1998, the calculation requires that the education tax credit *first* be claimed against the taxes due of the taxpayer; the EITC is then calculated *after* all other tax credit offsets have been subtracted. Taxpayers who use an education tax credit to offset all or part of their taxes may still be able to claim an EITC because it is refundable. Therefore, the mean EITC of $924 is a residual amount *after* the HOPE/LLTC is offset against the tax liability.

These findings are useful because they indicate that a few of the lower-income taxpayers claiming the EITC are also claiming a HOPE/LLTC. As previously indicated in the Federal Pell Grant discussion, various studies indicate that lower-income taxpayers may not be eligible for the education credits due to limited tax liability to offset against the credit, or possibly because of lower net tuition in the case of Federal Pell Grant recipients.

In examining the sub-sample of non-claimants with a tax, a larger percentage— approximately 41%—claimed an EITC in 1998, with a mean EITC of $1,347. The mean EITC of non-claimants ($1,347) was somewhat higher than the mean EITC of HOPE/LLTC claimants ($924) , and had a wider distribution of EITC amounts. This information is useful as it reveals that lower-income taxpayers with a tax liability available after claiming an EITC did not claim either the HOPE or LLTC. However, in examining this finding alongside the 14% of HOPE/LLTC claimants who also had an EITC, it might be premature to conclude that the non-claimants who claimed an EITC did not qualify for a HOPE or LLTC because their incomes were too low. This sub-

sample of 138 tax filers still has a remaining tax available where an education tax credit could have been claimed, assuming a "net tuition" existed. Lastly, the 81% of the non-claimants with zero tax claimed a refundable EITC, meaning these tax filers had no tax liability and received an average EITC refund of $1,946. According the earlier findings, these non-claimants had an average AGI of $7,492.

An additional variable examined was the use of a paid tax professional to prepare the 1998 federal income tax return. Recent research suggests that tax filers who use a paid tax preparer may have greater exposure to all potential tax benefits. In a recent study of the EITC by Meyer and Holtz-Eakin (2001), approximately 54% of the subjects who claimed an EITC had used a paid tax preparer. Of the HOPE/LLTC claimants who also claimed an EITC, approximately 64% used a paid tax preparer, and 36% self-prepared their tax return. A slightly larger percentage (approximately 70%) of non-claimants with a tax used a paid tax preparer. These findings, along with the Meyer and Holtz-Eakin study findings on the number of EITC claimants seeking tax assistance, indicate that those lower-income tax filers who used a paid tax preparer and sought an EITC may have also bcen exposed to the HOPE and LLTC. While this sub-sample of 11 EITC-HOPE/LLTC claimants is relatively small, the assertion in other studies (Hauptman, 1997; Conklin, 1998) that low-income taxpayers are ineligible for either the HOPE or LLTC may be somewhat premature.

Tax Return Preparation

Table 9 provides a cross-tabulation of the number of HOPE/LLTC claimants and non-claimants with a tax who had a paid-preparer stamp or had self-prepared their 1998 federal tax return using tax software or by hand. The purpose of examining these variables was an attempt to determine the extent that taxpayers were exposed to or aware of the two new tax credits. In general, the paid-preparer stamp determination was made

Table 9
HOPE/LLTC Claiming Status, by Federal Tax Return Preparation Method

Tax Return Preparation*	All Tax Filers with a Tax	HOPE/LLTC Claimants	Non-Claimants with a Tax**
Total prepared by paid professional	69.9%	78.0%	68.4%
Total self-prepared tax returns	30.1%	22.0%	31.6%
Totals	100.0%	100.0%	100.0%
Self-prepared using tax software	36.8%	46.2%	35.6%
Self-prepared by hand	63.2%	53.8%	64.4%
Total self-prepared returns	100.0%	100.0%	100.0%

**Tax return preparation status was not provided in data collection for 74 tax filers (16%).*
***242 tax filers with zero tax were excluded from this analysis because they were ineligible for HOPE/LLTC.*

by examining the bottom of Page 2, where it indicates: "Paid Preparer Use," on either the IRS Form 1040 or 1040A. This variable served as one indicator of potential exposure to the HOPE/LLTC. Table 9 reveals that the majority of the tax credit claimants and non-claimants used a paid tax professional. Of the HOPE/LLTC claimant sub-sample, 78% had their tax returns prepared by a paid tax professional. Approximately 22% of the valid tax credit claimants self-prepared their tax returns, 46% used tax software, and 54% prepared their taxes by hand.

The results indicate that a significant percentage of the HOPE/LLTC claimants used a paid tax professional in preparing their 1998 federal tax returns. Paid tax professionals are hired by individual taxpayers to prepare their federal tax returns, ensure compliance with federal tax laws, and assist them in calculating the lowest legal tax liability. Paid tax professionals usually are certified public accountants, lawyers, or IRS enrolled agents. In addition, paid tax professionals must understand the various tax laws (deductions, credits, income postponement, etc.) that may legally benefit their client. One possible reason that a large majority of the HOPE/LLTC claimants knew to take advantage of these tax credits is that their tax preparers were aware of the new tax provisions. Likewise, the 68% of non-claimants with a tax who used a paid tax professional may have had a stronger likelihood of HOPE/LLTC ineligibility because tax preparers possess an understanding of the new tax laws. Unfortunately, it was not possible to determine this based on the available variables. Non-claimants with zero tax liability who were ineligible for either tax credit whether using a paid tax preparer or not and were excluded from this portion of the study.

A significant percentage of the HOPE/LLTC claimants used a paid tax professional in preparing their 1998 federal tax returns.

On a national level, more than half of the individual federal tax returns filed in 1998 were prepared by a paid tax professional. According to U.S. Treasury estimates, approximately 56% of all individual federal tax returns filed in 1998 and 1999 were prepared by a paid tax professional ("More than Half," 2000). Taxpayers who had their tax returns prepared by a paid professional may have had a higher likelihood of exposure to the two education tax credits in 1998. At the same time, the results of tax filers who self-prepared their tax returns offer some interesting analysis.

In examining HOPE/LLTC claimants, approximately 22% self-prepared their federal tax return in 1998, as did 32% of non-claimants with a tax, which are much lower percentages than those who had their taxes prepared by a tax professional. These HOPE/LLTC claimant taxpayers were somehow aware of the new education tax provisions and claimed them when preparing their 1998 federal tax return. Each of the four community colleges in this study indicated that they mailed a notice (an IRS form 1098-T) to all students in early 1999 to inform them of the two new education tax credits and give them the data needed to prepare their 1998 federal tax returns. The notices indicated the amount of "net tuition" (i.e., gross tuition

minus grants and scholarships), which was needed to calculate a HOPE or LLTC.

The self-prepared group was further subdivided into those who prepared their taxes using tax software vs. those who hand-prepared their returns. HOPE/LLTC claimants who self-prepared their taxes using a tax software package (approximately 46%) may have determined their HOPE/LLTC eligibility through this process. Tax preparation software guides the preparer through a variety of screens, prompting the user with questions/information about their taxes. For example, in 1998, *Turbo Tax* software prompted preparers as follows: "In 1998, did you, your spouse, or your children (if any) pay any postsecondary tuition costs: Yes or No?" If the user responded affirmatively, the software would prompt further inquiries, referring to IRS form 1098-T. A smaller percentage of non-claimants with a tax (approximately 36%) self-prepared their taxes using tax software.

Approximately 54% of those who self-prepared their taxes did so by hand, which is somewhat higher than those who used tax software. This group claimed a college tax credit with no assistance of a paid tax-professional or tax software; they were informed about the credit presumably, at a minimum, by the form 1098-T. However, approximately 64% of self-preparer non-claimants with a tax filed their returns by hand. While there were no means to capture reliable data measuring these non-claimants' awareness of the HOPE or LLTC, it is possible that some of these tax filers may have been eligible, but were unaware of the new tax provision. However, with a greater percentage of tax filers nationwide using paid tax professionals and tax software, hopefully more will be exposed to the HOPE and LLTC.

Summary and Conclusions

The purpose of this study was to examine the use of college tuition tax credits at four public community colleges. As the findings reveal, approximately 11.2% of the total sample of 697 tax filers in 1998 claimed a HOPE or Lifetime Learning Tax Credit. Although this was the first year of availability for the HOPE/LLTC provisions, very few students/parents claimed the benefits. Further, this finding is somewhat lower than the most recent projection in the Stoll and Stedman study. The average HOPE/LLTC amount claimed in this study was $859 ($1,121 for parents and $554 for independent students), which was somewhat below the $1,500 amount that was intended by the policy to pay for a "typical community college." In addition, these findings show that approximately 59% of tax credit claimants' adjusted gross incomes fell below the projected $40,000 lower limit threshold at which recipients were estimated as the primary beneficiaries of the HOPE/LLTC (Hauptman, 1997). As for Pell Grant use, approximately 58% of students HOPE/LLTC claimants received a Federal Pell Grant; of these, approximately 62% received a Pell amount in the upper range ($1,500 to $3,000). These Pell findings are contrary to many projections from earlier studies indicating that HOPE/LLTC claimants would be in-

eligible for a Pell Grant due to the Pell program's lower income eligibility requirements.

Approximately 14% of tax credit claimants also claimed another tax credit designed for lower-income families—the EITC—with the mean EITC at $924. While a small number of EITC claimants also had an education tax credit, this finding is important because, similar to Pell, it provides additional evidence that lower-income taxpayers are potentially benefiting more from the two education tax credits than originally estimated.

In this analysis, it is difficult to conclude if the overlap of Federal Pell Grant and the HOPE/LLTC tax credits was an unintended consequence of the tax policy. The results of this study suggest a need for additional research, on a wider scale, to further determine the extent to which lower-income students and families are benefiting simultaneously from the HOPE/LLTC and other benefits, such as Federal Pell Grants and Earned Income Tax Credits. The information in this study can help policy makers determine whether these two college tuition tax credits are benefiting the intended taxpayers.

In 2002, the U.S. Government Accountability Office released a study comparing the effects of federal student aid programs with the federal college tax credits (GAO, 2002). One of the report's findings was that the Education and Treasury departments do not share information about the respective programs and, therefore, "Education has been unable to analyze the use of higher education tax credits or their effects . . . [and] Treasury does not possess data on the receipt of title IV aid, limiting its capacity to assess the credits' effects" (GAO, 2002, p. 5). A structural mechanism should be implemented to capture both federal aid and tax credit data, either in the FAFSA filing process, through the Federal Quality Assurance Program, or other constructive, low-cost methods (Silliman, 2004).

Postscript

As part of the debate concerning simplification of the U.S. Tax Code, the Congressional Joint Committee on Taxation recommended consolidating the HOPE, LLTC, and the College Tuition Tax Deduction (enacted in 2001) into a single tax credit (Joint Committee on Taxation, 2005). The three tax provisions are complex and confusing to taxpayers. Any efforts to simplify education tax benefits might improve usage rates.

On November 1, 2005, the President's Advisory Panel released its recommedations, including one that would replace the HOPE/LLTC and the College Tuition Tax Deduction with a "Family Credit" up to $1,500 for "all families with full-time students age 20 and under," along with a new tax-free savings vehicle (Report, 2005, p. 84). The proposal would put an age-based limitation on the provision, in essence eliminating the LLTC. The Bush Administration is expected to review the panel's findings and put forward its tax reform proposals in early 2006.

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